



New Mexico Office of the State Auditor

Update on the Special Audit of the New Mexico Finance Authority

*Presentation to the New Mexico Finance Authority Oversight
Committee*

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Hector H. Balderas

State Auditor





Overview of Update

- Phases and Status of Deliverables
- Projected Timeline for Release
- Summary of Certain Investigative Work and PwC Staffing Resources
- Related Financial Audit Test Work
- Referrals of the Special Audit Report



Update on the Special Audit

- OSA auditors are working with PricewaterhouseCoopers, LLC (PwC) to complete the special audit.
- The special audit has two phases: 1) forensic consulting services and 2) comprehensive analysis and risk assessment.
- PwC was required by its contract to submit an interim draft report to the OSA on October 19, 2012 addressing the matters identified in Phase 1. PwC met this deliverable.



Update on the Special Audit

- PwC was required by its contract to deliver a draft report to the OSA on November 16, 2012 of its findings and recommendations associated with Phase 1 and Phase 2. PwC met this deliverable.
- The draft report is currently in review and is confidential. OSA auditors and PwC staff are working closely to finalize the report and certain outstanding items.
- An exit conference must be conducted prior to release of the report. The OSA has an exit conference scheduled with the NMFA for December 12, 2012. The exit conference will include OSA staff, PwC staff, and certain NMFA Board members and NMFA staff.



Update on the Special Audit

- Barring any unforeseen circumstances, the OSA will release the report to the NMFA on December 14, 2012.
- The Audit Act provides that special audit reports do not become public until five days after the State Auditor releases the report, unless the agency waives the five-day period. The OSA anticipates the NMFA will submit a written waiver of the five-day holding period required by the Audit Act.
- Provided the OSA receives a written waiver, we will present the report to the NMFA Board at a public meeting on December 14, 2012.



Status of Other Deliverables – Weekly Status Reports

As required, PwC provided the OSA weekly status reports to the OSA that include the following information:

- Total hours worked per PwC staff member and associated hourly rate and total hourly charges for the seven days prior to the weekly briefing;
- Cumulative hours worked and cumulative hourly charges for each PwC staff member;
- An estimate of all related travel expenses for the seven days prior to the weekly briefing and a cumulative total;
- All written findings of the investigation as the findings were discovered and drafted;
- PwC concerns about timely fulfilling scope requirements and deliverable deadlines;
- PwC concerns about fulfilling scope requirements within budget; and
- Other items as determined by OSA staff and agreed to by PwC.



Additional Details About the Report

- In response to this committee's letter dated October 16, 2012, the OSA provided a letter dated November 29, 2012 which contains certain details about the special audit report.
- PwC is required by Section 1(E)(2) of its contract to deliver to the OSA a final written report of its findings and recommendations for all phases of the engagement.
- PwC will also include an exhibit in its final report that lists all of the information they were provided.
- Furthermore, the report will address whether or not PwC received all materials it requested that were relevant to the scope of work.



Summary of Certain Investigative Work

- The OSA's November 29, 2012 letter to this committee also explains certain investigative test work conducted by PwC.
- As detailed in the letter, PwC performed transaction testing designed to identify transactions that could provide evidence of embezzlement or errors in financial reporting. The testing covers certain transactions, including bank reconciliations, wire transfer activity and journal entries.
- The testing also includes analytical procedures for the NMFA's financial statement balances from fiscal years 2009 to 2011.



Summary of Certain Investigative Work

- In addition to transaction testing, PwC performed electronic evidence analysis and conducted interviews, which are all relevant investigative procedures when trying to identify evidence of corruption (e.g., kickbacks, extortion, bribery, quid pro quo, etc.).
- PwC's Forensic Technology Services staff extracted approximately 2,055,000 email and attachments from the system used by NMFA (approximately 1.4 million after deduplication).
- The team performed an analysis of the approximately 1.4 million electronic documents and prioritized the analysis using certain criteria that includes selected search terms, relevant date ranges and key custodians.



Summary of PwC Staffing Resources

- Lead PwC Staff:
 - Charles Reddin, CPA, CFF (Partner, PwC Advisory Services)
 - Peter Brown, CPA, CFF, ABV (Director, PwC Advisory Services)
 - Darrell Lane, Director (PwC Forensic Technology Services)
- Depending on the demands of the investigation, PwC has allocated the staffing resources of other Partners, Directors, Managers and Senior Associates to date.
- Given the forensic technology demands of the investigation (extracting and processing significant amounts of electronic data), certain PwC Forensic Technology Services Managers, Senior Associates and Associates have worked on the investigation to date.
- The OSA monitors the use of PwC staff on a weekly basis. This includes the hours, fees and tasks of PwC staff related to the needs of the forensic investigation.



Related Financial Audit Test Work

- The OSA approved NMFA's recommendation and contracts for the 2011 and 2012 financial audits. REDW is currently conducting the fiscal year 2011 financial audit. There is certain test work that REDW can conduct simultaneously for both the 2011 and 2012 audits.
- The OSA continues to communicate closely with REDW and will inform REDW of any noted areas of risk identified during the special audit.
- The OSA may also refer certain issues discovered during the special audit to REDW for additional test work during the financial audit.



Referrals of the Special Audit Report

- OSA and PwC have worked closely with the Securities Division of the New Mexico Regulation and Licensing Department and the U.S. Securities Exchange Commission.
- Upon release, the OSA will refer the report to these agencies for their consideration.
- We will also refer the report to this committee, the Legislative Finance Committee, the Governor, other executive agencies and stakeholders. The OSA stands ready to assist this committee with regard the matters identified by the special audit.



Any Questions?

Thank
You

